

Ecology Works, Inc. v. Essex Ins. Co., 02-15658
Gould, J., dissenting.

MAR 17 2003

CATHY A. CATTERSON
U.S. COURT OF APPEALS

Because the policy's first-publication exclusion bars any potential for coverage, I respectfully dissent.

In a declaratory action for duty to defend, "[t]o prevail, the insured must prove the existence of a potential for coverage, while the insurer must establish the absence of any such potential. In other words, the insured need only show that the underlying claim may fall within the policy coverage; the insurer must prove it cannot." *Montrose Chem. Corp. v. Superior Court*, 6 Cal. 4th 287, 295 (1993) (emphasis omitted).

We first compare the allegations of the third-party complaint with the terms of the policy to determine whether there is a duty to defend. *Montrose*, 6 Cal. 4th at 295. The complaint filed by Alkaline on January 25, 2001, alleged that Ecology's use of the "DUSTMITEX" mark in advertising violated the Lanham Act and state law because it was confusingly similar to Alkaline's trademark "MITE-X." Because the insurance policy that Ecology purchased from Essex covers "advertising injury" committed during the policy period, I agree with the majority that the Alkaline complaint raises the potential for coverage and triggers Essex's duty to defend. This conclusion does not end the inquiry, however.

Even though the factual allegations on the face of the Alkaline complaint

trigger the duty to defend, Essex can discharge that duty “if it provides conclusive evidence demonstrating that [an] exclusion applies.” *Atlantic Mutual v. Lamb*, 100 Cal. App. 4th 1017, 1038-39 (2002). *See also Ringer Assoc. Inc. v. Md. Cas. Co.*, 80 Cal. App. 4th 1165, 1185 (2000) (concluding there was no duty to defend because an exclusion applied); *Legarra v. Fed. Mut. Ins. Co.*, 35 Cal. App. 4th 1472, 1482 (1995) (same).

Ecology’s policy contains an exclusion that says the policy does not apply to “advertising injury . . . arising out of oral or written publication of material whose first publication took place before the beginning of the policy period.” The policy defines “advertising injury” to include copyright infringement. Essex argues that any potential for coverage is negated by application of the policy’s “first-publication exclusion.” I agree.

There is a split in authority about whether the first-publication exclusion applies to copyright infringement, which Essex fairly acknowledges. *Compare, e.g., Iron Home Builders, Inc. v. Auto-Owners Ins. Co.*, 839 F. Supp. 1260 (E.D. Mich. 1993) (concluding the exclusion applied only to advertising injury resulting from slander, libel or invasion of privacy); *Arnette Optics Illusions, Inc. v. ITT Hartford Group, Inc.*, 43 F. Supp. 2d 1088 (C.D. Cal. 1998) (finding the exclusion ambiguous and thus concluding it does not apply to copyright infringement); *with Applied Bolting Tech. Prod., Inc. v. USF & G*, 942 F. Supp. 1029, 1036-37 (E.D. Pa

1996) *aff'd*, 118 F.3d 1574 (3d. Cir. 1997); *Maddox v. St. Paul Fire & Marine Ins. Co.*, 179 F. Supp. 2d 527 (W.D. Pa. 2001) (declining to decide the issue but noting that the Ninth Circuit has disapproved of *Arnette Optics* and has found the exclusion to be not ambiguous in *Maxtech Holding, Inc. v. Federal Ins. Co.*, 202 F.3d 278, n.4 (9th Cir. 1999) (unpublished)). The California state courts have not decided whether the first-publication exclusion applies to copyright law. And, while the United States District Court for the Central District of California in *Arnette Optics* concluded that the split in authority shows an ambiguity in the exclusion, I do not find this reasoning persuasive. First, the plain language of the exclusion is not ambiguous. The exclusion applies to “advertising injury” and the policy defines “advertising injury” to include copyright infringement. Second, the California courts have not adopted the most strict interpretation of the first-publication exclusion even where the exclusion could be interpreted in more than one way. *See Ringler*, 80 Cal. App. 4th at 1182-83 (choosing broader interpretation of first-publication exclusion in defamation claim to give the exclusion effect).

Ecology does not contend that the first-publication exclusion is categorically inapplicable to copyright infringement.¹ Considering the plain language of the

¹ Rather, Ecology argues that the first-publication exclusion does not apply to Ecology because Ecology did not publish the DUSTMITEX mark before the policy

exclusion and its definition, the contentions of the parties, and the issue before us, I believe that California would likely adopt the position that first-publication is a defense to coverage for claimed copyright infringement.

Under this first-publication exclusion, to defeat a duty to defend Essex must prove by conclusive evidence (1) that the copyright infringement alleged by Alkaline arises out of oral or written publication of the DUSTMITEX mark and (2) that the publication occurred before the policy period. Ecology concedes that the DUSTMITEX mark was published before the policy period by Mark Zachary, the assignor of the mark to Ecology.² In determining whether the application of the first-publication exclusion conclusively defeats Essex's duty to defend, therefore, only one issue remains: Whether the pre-policy publication of the DUSTMITEX mark is imputed to Ecology as assignee of the DUSTMITEX mark.

When Ecology obtained the www.dustmitex.com domain name from its assignor on June 2, 2000, all of the benefits and liabilities that attached to the mark also transferred to Ecology as the assignee. *See No Touch North American v. Blue Coral, Inc.*, 43 U.S.P.Q.2d 1862, 1863 (C.D. Cal. 1997). In its registrations to the

period, only its predecessor did.

² Ecology argues that Mark Zachary, the previous owner of the dustmitex.com website, published the mark before the policy period but that Ecology did not “publish” but only “used” the mark before the policy period.

Patent and Trademark Office, Ecology claimed mark priority based on the assignment from Zachary. Ecology was able to do so because an assignee of a mark steps into the shoes of the assignor. *See* 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 18:15 (4th ed. 2002). *See also Carnival Brand Seafood Co. v. Carnival Brands, Inc.*, 187 F.3d 1307, 1315 (11th Cir. 1999) (recognizing that the assignee steps into the shoes of the assignor). *Cf.* 15 U.S.C. § 1127 (the Lanham Act defines “applicant, registrant” to include the “legal representatives, predecessors, successors and assigns of such applicant or registrant”).

The language of the first-publication exclusion does not require that the policyholder published the material before the policy period, but merely that the publication of the material first took place before the policy period. *See Matagorda Ventures, Inc. v. Travelers Lloyds Ins. Co.*, 203 F. Supp. 2d 704, 717 n.4 (S.D. Tex. 2000) (recognizing that the first publication exclusion “does not state that the material must have been first published by the same party making the claim.”).

In *Matagorda*, the plaintiffs argued that the first-publication exclusion was inapplicable because any pre-policy publication resulted from the activities of Megasaurus, a predecessor company. 203 F. Supp. 2d at 716. That argument was rejected by the district court on two grounds: (1) the application of the first-publication exclusion turns on whether the material was published before the policy

period began, and is not limited to publications by the insurance claimant and (2) one of the plaintiffs was the president and sole owner of Megasaurus and knew that Megasaurus had been sued for infringement before the mark was assigned. *Id.* at 716-17. Similarly, Ecology's predecessor published the mark, and Ecology knew that Zachary had published the mark before accepting the assignment and before buying the policy.

The majority relies on *Atlantic Mutual* to conclude that the applicability of the first-publication exclusion is a question of indemnification appropriate for trial, not a question of duty to defend. But *Atlantic Mutual* does not stand for such a broad proposition. *Atlantic Mutual* acknowledges that an insurer may rely on an exclusion to deny coverage, but concludes that the insurer failed to *conclusively* show through *undisputed* facts that the first-publication exclusion applied to bar coverage. 100 Cal. App. 4th at 1038-39. The insurer in *Atlantic Mutual* tried to defeat its duty to defend with a declaration from its own claims adjuster, who stated that the insured told him that the dispute in the underlying case began before the policy period. *Id.* at 1038. The court concluded this declaration was neither conclusive nor based on undisputed facts. *Id.* at 1039.

By contrast, here, Ecology does not dispute that Zachary published the Dustmitex mark before the policy period, and Ecology does not dispute that

Zachary assigned the Dustmitex mark to Ecology. Because Ecology steps into the shoes of its assignor, Essex has conclusively demonstrated through undisputed facts that the Dustmitex mark was published before the policy period. There is no potential for coverage and corresponding duty to defend.

Because Essex has conclusively demonstrated that the first-publication exclusion bars coverage of the underlying claim, I would affirm the district court's grant of summary judgment to Essex.³ I respectfully dissent.

³ In my view, the first-publication exclusion bars coverage irrespective of whether we accept the district court's conclusion that the declaration submitted by Ecology's president, James Burnett, was a sham declaration. In that declaration, Burnett explains that Ecology did not use the DUSTMITEX mark prior to May 2002 and that any prior use of the mark was limited to use by Mark Zachary, Ecology's predecessor. Although I would credit the district court's sham declaration finding because I do not believe the district court abused its discretion in making such a finding, that finding is not necessary to and does not affect the applicability of the first-publication exclusion. The timing of Ecology's first use of the DUSTMITEX mark does not affect the applicability of the first-publication exclusion. The first-publication exclusion turns on publication, not use.